BPO PROPERTIES

Continued Growth

Annual Report 2001

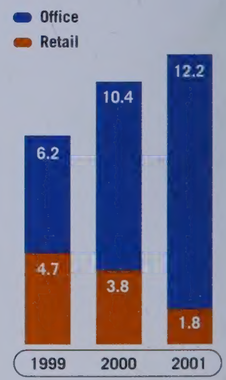
RECORD FINANCIAL PERFORMANCE

Our strategic focus on the acquisition, ownership and management of premier real estate properties delivered growth in funds from operations before gains of 51% in 2001, and positioned BPO Properties for continued leadership in the Canadian office market.

FINANCIAL HIGHLIGHTS

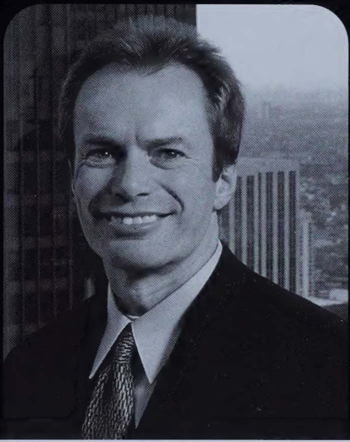
(thousands, except per share information)	**2001**	2000	1999
Portfolio of commercial properties			
Book value	**$ 1,448,195**	$ 1,641,968	$ 1,074,399
Net rentable area (sq. ft.)	**13,997**	14,236	10,875
Results of operations			
Revenues	**$ 346,623**	$ 305,683	$ 237,696
Funds from operations and gains	**172,426**	108,735	109,901
Net income	**106,944**	55,827	61,736
Financial position			
Total assets	**$ 2,000,504**	$ 2,027,931	$ 1,601,003
Shareholders' equity			
Preferred equity	**381,743**	381,743	381,743
Common equity	**644,233**	555,203	597,248
Debt to total capitalization	**49%**	51%	35%
Per diluted common share			
Funds from operations and gains	**$ 5.42**	$ 2.94	$ 2.50
Net income	**3.12**	1.17	1.19
Book value	**22.59**	19.47	17.48

Commercial Property Net Rentable Area
(millions, sq. ft.)



Funds From Operations and Gains
(per diluted common share)

TO OUR SHAREHOLDERS



David D. Arthur
President and Chief Executive Officer

Dear fellow shareholders,

For BPO Properties, 2001 marked another year of significant achievements across our portfolio with record cash flow growth, strong leasing, completion of several major value enhancing initiatives and the introduction of new tenant services, further enhancing our position as a leading owner of premier office properties in Canada. We are pleased to be able to share with you the highlights of these operational and financial achievements.

Strong Financial Results

BPO Properties entered 2001 in an enviable position – with a premier office portfolio distinguished by long lease terms, contractually embedded growth and high credit quality tenants – attributes which contributed to another year of record financial performance.

BPO Properties achieved growth in funds from operations before gains of 51%, representing $3.68 per diluted share in 2001. Including the gain realized from the sale of a 50% interest in Fifth Avenue Place in Calgary, the company's funds from operations per diluted share was $5.42, compared with $2.94 in 2000. Net income per diluted common share during 2001 increased to $3.12.

Building Value

Our focus on the premier office property sector in Canada is driven by our commitment to build value in your company – through opportunistic acquisitions of quality assets, innovative portfolio management and strong capital management. During 2001, BPO Properties:

- *Acquired a 50% interest in the 1.8 million square foot Bay-Adelaide development site* in downtown Toronto for $50 million, significantly below replacement cost. The Bay-Adelaide Centre currently includes a parking garage with a 1,100 car capacity, construction completed to grade, including all foundation work, plans and permits for a 1.2 million square foot premier office tower and an additional development site. While development of the office tower component of the project will not proceed until pre-leasing targets are achieved, the Bay-Adelaide Centre provides us with a significant strategic advantage in meeting the growth needs of our dynamic tenant base.
- *Entered into a partnership with an institutional investor to redevelop Hudson's Bay Centre in Toronto*, acquiring a 25% interest in this one million square foot mixed-use project, which includes a 35-storey, 535,000 square foot office tower atop a retail complex connected to Canada's busiest subway intersection.
- *Leased over 1.6 million square feet of office space during the year, three times the space contractually expiring.* At December 31, 2001, occupancy within the portfolio was 96% with an average rental rate across the portfolio of $20 per square foot and an average term extended from eight years to nine years. This strong leasing activity was fuelled by the lease-up of vacant space in recently acquired properties, including Bankers Hall in Calgary and Hudson's Bay Centre in Toronto, and the robust oil and gas industry in Calgary.

- *Strengthened the company's position as a leading Canadian office property company* with the disposition of four non-core retail assets, including the 1.2 million square foot Bramalea City Centre, a regional shopping centre with an adjacent hotel in Toronto, as well as Sevenoaks and West Oaks Malls in Vancouver. Together, these transactions generated $130 million in net cash proceeds to BPO Properties for reinvestment in other growth opportunities.
- *Enhanced the value of the Calgary portfolio* through proactive portfolio management. During 2001, BPO Properties refinanced the 1.7 million square foot Fifth Avenue Place and subsequently sold a half interest to an institutional investor, generating net cash proceeds of $125 million. In addition, we acquired the land lease under the 2.6 million square foot Bankers Hall complex and an adjacent 340 stall parkade, leased over 74,000 square feet of the 172,000 square feet of vacant space in the recently completed second tower and refinanced the property, generating cash proceeds of $122 million. Together, these transactions pave the way for the potential sale of a half interest to institutional investors in 2002.
- *Reduced future financing costs* by completing $595 million of new financings in 2001, including Fifth Avenue Place and Bankers Hall in Calgary as noted above, as well as the Queen's Quay Terminal in Toronto. These transactions bring the company's weighted average fixed-rate debt to 7.1% and average maturity to 11 years.
- *Launched an on-line concierge service* allowing our tenants to electronically order tickets to cultural and sporting events and to access other services such as catering, event planning, travel, and more from the comfort of their own offices. BPO Properties also introduced an enhanced Fire Life Safety Program, which provides tenants and property employees with standardized training, guidelines and tools to respond effectively to any emergency.

Positioned for Continued Growth

As we look forward to 2002 and beyond, it is with confidence in our ability to maintain the growth momentum. Despite the economic slowdown in the second half of the year, our strategic focus on premier quality office properties in Canada's top markets – Toronto, Calgary and Vancouver – and commitment to delivering the highest quality tenant services, continues to attract and retain the best corporate tenants. Progressive portfolio management ensures that we continue to deliver strong internal growth from contractual rent step-ups, the lease-up of vacant space and opportunistic take-backs of space.

In addition, a strong track record of external growth through acquisitions, combined with significant access to capital, continues to create external growth opportunities for the company.

FOCUS ON VALUE – THE CALGARY STORY

A commitment to proactive portfolio management creates significant value for BPO Properties shareholders. The success of our approach to driving value from our premier portfolio of office properties is highlighted in the initiatives undertaken in the last five years within our Calgary portfolio.

Fifth Avenue Place

Bankers Hall

We remain focussed on four key strategic priorities:

- *Driving value from our existing properties* through proactive leasing and select redevelopment initiatives to maintain the quality of our portfolio.
- *Active capital management*, including refinancing and the sale of partnership interests in mature properties. The sale of a half interest in Bankers Hall to institutional investors is among our key capital objectives for the coming year.
- *Disciplined acquisitions and development* in our core office markets – Toronto, Calgary and Vancouver. We will consider only acquisition opportunities that meet our return hurdles, and where we can leverage our leasing and operating expertise and market leadership to create long-term value. In Toronto, we will continue to seek a quality lead tenant to launch our Bay-Adelaide development, in anticipation of a more positive economic environment and renewed demand for quality office space in this supply-constrained market. As well, we are focussed on completing the redevelopment and repositioning of the Hudson's Bay Centre project.
- *Progressive tenant services and state-of-the-art technical infrastructure* to solidify the company's competitive position and maintain a stable and satisfied tenant base.

Positive Outlook

We are confident that BPO Properties is well positioned to again deliver record financial performance in 2002 and beyond, backed by an enthusiastic and experienced team of professionals driven to implementing our growth strategies and moving the company forward.

In Appreciation

BPO Properties has come a long way over the past few years. I would like to thank all of our investors, tenants, business partners and employees for their continued support as we have worked to transform BPO Properties from a small portfolio of commercial properties into one of Canada's leading office property companies.

On behalf of the Board,

David D. Arthur
President and Chief Executive Officer

February 21, 2002

Acquisition Profile	Portfolio Activity	Refinancing	Partnerships	Achieved Returns
1996: - 1.7 million sq. ft., twin-tower office complex with 20% vacancy	***1997:*** - Leased to 100% ***1999 – 2000 / 2001:*** - Re-leased 997,000 sq. ft., adding $4 per sq. ft. to average net rents	***1998:*** - Financed at 80% of total acquisition cost ***2001:*** - Refinanced at greater than acquisition cost with a $165 million non-recourse, 10-year mortgage at 7.6%	***2001:*** - Sold 50% interest based on gross value of $275 million	45% IRR
2000: - 2.6 million sq. ft. office complex - 425,000 sq. ft. of vacancy in incomplete second tower	***2000 / 2001:*** - Leased over 680,000 sq. ft. on completion of construction at higher rates than planned - Acquired land lease under the property - Acquired adjacent 340 stall parkade	***2001:*** - Refinanced with a $352 million, non-recourse, 12-year mortgage at 7.2% - Financed land acquired with a $26 million mortgage	***2002:*** - Target for sale of half interest in the property to institutional investors	40% IRR

PROPERTIES PORTFOLIO

Exchange Tower

Queen's Quay Terminal

HSBC Building

Bankers Hall

Petro-Canada Centre

Fifth Avenue Place

Property Name	Occupancy	Major Tenants	Net Rentable Area (thousands, sq. ft.)	Percentage Owned
OFFICE PROPERTIES				
Downtown Toronto, Ontario				
Exchange Tower and TSE Pavilion	99%	Toronto Stock Exchange, Weir & Foulds, Department of Justice, Altamira, National Bank Financial	1,029	100%
Queen's Quay Terminal	90%	Labatt, Charles Schwab Canada, CIT Group, Bell Sympatico	504	100%
HSBC Building	91%	HSBC, Siebel Systems	194	100%
105 Adelaide Street West	100%	Lombard General Insurance, HSBC Securities, Markel Insurance	184	55%
20-22 Front Street West	97%	Merrill Lynch	144	100%
Bay-Adelaide Centre[1,3]			1,226	50%
Hudson's Bay Centre[2,4]			797	25%
Downtown Calgary, Alberta				
Bankers Hall	92%	Canadian Natural Resources, Talisman Energy, CIBC, Bennett Jones, RBC Financial Group	2,186	100%
Petro-Canada Centre	98%	Petro-Canada, Precision Drilling, Bell Intrigna	1,732	50%
Fifth Avenue Place	100%	Imperial Oil, Anadarko Canada, Enbridge, Westcoast Energy	1,475	50%
Downtown Vancouver, British Columbia				
Royal Centre	94%	RBC Financial, Lang Michener, Timberwest Forest, BC Insurance, Bull Housser	597	100%
Parking and other			2,124	69%
Total office properties	96%		12,192	71%
RETAIL PROPERTIES				
Regional Shopping Centres				
Londonderry Mall, Edmonton, AB	92%	Wal-Mart, The Bay, SportChek, Winners, Save-On-Foods	735	100%
Community Shopping Centres				
Sheridan Centre, Mississauga, ON	98%	Zellers, Dominion Food, Royal & Sun Alliance Insurance	538	100%
Malvern Town Centre, Scarborough, ON	98%	Loblaws, Zellers, BiWay	285	100%
Merivale Place, Nepean (Ottawa), ON	95%	Winners, Scotiabank	146	100%
Westney Heights Plaza, Pickering, ON	98%	Cashway, White Rose, CIBC, Rogers	101	100%
Total retail properties	96%		1,805	100%
Total portfolio	96%		13,997	
Less: proportionate share owned by others			(3,559)	
BPO's net effective ownership interest			10,438	75%

(1) Property acquired February 2001.

(2) Property acquired March 2001.

(3) Development opportunity.

(4) Property under redevelopment.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL POSITION AND OPERATIONS

Introduction

BPO Properties Ltd. is a leading real estate investment company focussed on ownership and value enhancement of premier commercial real estate in select markets in Canada. The company's objective is to realize superior financial returns for its shareholders by enhancing the value of its real estate assets and by making opportunistic investment in new assets.

Assets

OVERVIEW

The company's assets are comprised primarily of commercial office and retail properties located in Canada. Total assets declined by 1% to $2 billion, largely as a result of the sale of non-core retail assets, the disposition of a 50% interest in Fifth Avenue Place in Calgary and further realizations on the loans receivable portfolio. This was offset by the acquisition of a 50% interest in the Bay-Adelaide development site in downtown Toronto in early 2001 for $50 million. A summary of these assets at December 31 is as follows:

Assets

(thousands)	**2001**	**% of Total**	2000	% of Total
Operating properties				
Office	**$ 1,160,528**	**80%**	$ 1,162,085	71%
Retail	**139,006**	**10%**	440,559	27%
Development	**148,661**	**10%**	39,324	2%
	1,448,195	**100%**	1,641,968	100%
Other assets				
Cash and cash equivalents	**393,282**		87,676	
Future income taxes	**105,508**		142,569	
Loans receivable	**30,437**		120,779	
Other	**23,082**		34,939	
	$ 2,000,504		$ 2,027,931	

COMMERCIAL PROPERTIES

Commercial properties continue to increase as a proportion of the company's assets, and now represent 90% of the asset base excluding cash on a book value basis. The commercial property portfolio is comprised of interests in 21 properties with a book value of $1.4 billion at December 31, 2001. This compares with 22 properties and a book value of $1.6 billion at December 31, 2000. A listing of the significant properties in the portfolio is provided on the opposite page.

The following table summarizes the real estate portfolio at December 31:

Commercial properties

	Number of Properties	Net Rentable Area[1] (thousands, sq. ft.)	Book Value (thousands)
2001			
Office	**13**	**7,540**	**$ 1,160,528**
Retail	**5**	**1,805**	**139,006**
Development	**3**	**1,092**	**148,661**
Total	**21**	**10,437**	**$ 1,448,195**
2000			
Office	13	8,370	$ 1,162,085
Retail	8	3,786	440,559
Development	1	—	39,324
Total	22	12,156	$ 1,641,968

(1) Net effective ownership interest.

OFFICE PROPERTY PORTFOLIO

The company's premier office portfolio is located primarily in the downtown cores of Toronto, Calgary and Vancouver.

The consolidated carrying value of the company's interest in 7.5 million square feet of rentable area is approximately $154 per square foot, while the cost to replace the office portfolio is estimated at approximately $300 per square foot. The average size of the company's major office properties is one million square feet of rentable area.

Occupied and committed space in the office portfolio increased from 95% at January 1, 2001 to 96% at December 31, 2001 due to the leasing of the Bankers Hall complex which began the year with a vacancy of 261,000 square feet. Leasing activity throughout the portfolio during 2001 totalled 1.2 million square feet.

The company's office portfolio features a high quality tenant base with an industry profile as follows:

Office properties tenant profile

Oil and gas		41%
Anadarko Canada	Petro-Canada	
Canadian Natural Resources	Precision Drilling Corporation	
Enbridge Inc.	Talisman Energy	
Imperial Oil	Westcoast Energy	
Paramount Resources		
Financial services		31%
Charles Schwab Canada	Merrill Lynch	
CIBC	RBC Financial Group	
HSBC	Royal & Sun Alliance	
Lombard General Insurance	CIT Group	
Professional services		8%
Bennett Jones	Fraser Milner	
Blake Cassels	Lang Michener	
Bull Housser	Weir & Foulds	
Government and regulatory		6%
Public Works Canada	Toronto Stock Exchange	
Other		14%
		100%

The lease maturities in the office portfolio average approximately 5% annually over the next five years. The lease maturity of the company's office portfolio by major market is as follows:

Office profile

	Toronto		Calgary/Vancouver		Total	
(thousands)	Sq. ft.	%	Sq. ft.	%	Sq. ft.	%
Available	83	4%	228	4%	311	4%
2002	62	3%	117	2%	179	2%
2003	45	2%	137	3%	182	2%
2004	99	5%	146	3%	245	3%
2005	317	15%	206	4%	523	7%
2006	138	7%	231	4%	369	5%
2007 and beyond	1,416	64%	4,315	80%	5,731	77%
	2,160	100%	5,380	100%	7,540	100%

Office rental rates remained strong during 2001, reflecting stable economic conditions in Toronto and the effect of the strong oil and natural gas industry in Calgary. At December 2001, the Toronto and Calgary downtown office overall vacancy rates were 7% and 10% respectively, with Class AAA vacancy rates at 3% and 7% respectively. As leases expire, the company expects to capitalize on the positive market conditions that exist to increase occupancy and in-place rental rates throughout the portfolio. In-place rental rates stood at an average of $17 per square foot, a 34% discount from the market rate for similar space and services, as summarized below:

Office rental rates

(per sq. ft.)	Current Net Rent	Market Net Rent
Toronto	$ 18	$ 28
Calgary	$ 17	$ 25

OFFICE ACQUISITIONS, DISPOSITIONS AND REDEVELOPMENT

In July 2001, following the refinancing of Fifth Avenue Place in Calgary, the company sold a 50% interest in the property based on a gross value of $275 million, generating a gain of $49.5 million.

In February 2001, a 50% interest in the Bay-Adelaide Centre was acquired. This development site, located at the corner of Bay and Adelaide Streets in downtown Toronto, is zoned for 1.8 million square feet, which includes a 1.2 million square foot office complex. Substantial infrastructure exists on the site and includes completed in-ground construction, a 1,100-stall parking garage, a six-storey elevator core, and a heating and cooling infrastructure. Due to this existing infrastructure, construction costs to complete development will approximate $250 per square foot, significantly less than building a similar quality project. This will also be the next major office project developed in the downtown core and will launch when major tenancies are secured. The development site also includes an adjacent block where the company anticipates the construction of a hotel and/or residential project of approximately 800,000 square feet, which will be sold to or joint ventured with a residential developer.

In March 2001, the company acquired a 25% interest in the Hudson's Bay Centre in Toronto, a redevelopment project at the corner of Bloor and Yonge Streets in Toronto, one of Canada's busiest intersections. Redevelopment and leasing is currently underway for the 35-storey, 535,000 square foot office tower atop a 557,000 square foot retail mall, The Bay department store and a parking complex.

RETAIL PROPERTY PORTFOLIO

At year end, the retail portfolio was comprised of one regional shopping mall and four community shopping centres, totalling 1.8 million square feet of rentable area. The regional shopping centre, located in Edmonton, was sold in January 2002. The consolidated carrying value of the company's interest in these retail properties is approximately $77 per square foot.

During 2001, new and renewal leasing for retail properties totalled 253,000 square feet. Occupied and committed space was 96% at December 31, 2001. The increase during 2001 in occupied and committed space is attributable to the successful leasing of the vacancies created in 1999 by Eaton's.

The lease maturities in the retail portfolio average approximately 6% in each of the next five years. The lease maturity by property type is as follows:

Retail profile

(thousands)	Available	2002	2003	2004	2005	2006	2007 & Beyond	Total
Square feet	80	113	223	79	91	58	1,161	1,805
%	4%	6%	12%	4%	5%	3%	66%	100%

Included in the current vacancy within the retail portfolio is 56,000 square feet of space in Londonderry Mall. The property was sold in the first quarter of 2002 for total proceeds of $56 million. This sale will eliminate 80% of the expiries in 2003. It is expected that the remaining retail assets will be sold in the near term.

During 2001, the company continued to execute its strategy of redeveloping select properties in its retail portfolio to enhance the value of the portfolio and position them for sale. Dispositions during 2001 included the Bramalea City Centre in Brampton, Ontario and both Sevenoaks Mall and West Oaks Mall in Vancouver, British Columbia. Two additional properties are under contract for sale to be completed in 2002.

LOANS RECEIVABLE

The company had $30.4 million in loans receivable at December 31, 2001, compared with $120.8 million at December 31, 2000. This represents a net decrease in the size of the portfolio of 75% during 2001 as a result of net loan realizations.

The loan portfolio at December 31, 2001 is comprised of five loans of which one loan comprises 66% of the total loans receivable balance. Contractual maturity of the gross loans receivable in the loan portfolio at December 31, 2001 is as follows: 2002 – $2.7 million; 2003 – $3.2 million; 2004 – $3.8 million; 2005 – $3.4 million; 2006 – nil; and thereafter – $17.3 million.

Results of Operations

In 2001, funds from operations before gains was $3.68 per share on a diluted basis, a 51% increase over $2.44 in 2000. Including the gain realized on the sale of a 50% interest in Fifth Avenue Place, funds from operations totalled $172.4 million or $5.42 per diluted share, compared with $108.7 million or $2.94 per share in 2000. Net income in 2001 was $106.9 million or $3.12 per common share on a diluted basis, compared with $55.8 million or $1.17 per common share in 2000. This increase in net income over 2000 is due in part to the inclusion of $49.5 million of gains on dispositions of properties included in income in 2001 versus $15.2 million of gains included in 2000. The increase in per share amounts are a result of improved current year operating performance in the commercial property portfolio, increased operating income due to acquisitions of commercial properties, and the impact of our common share repurchase initiatives in the prior year.

Net operating income

(thousands)	**2001**	2000	% Change
Commercial properties			
Revenue	**$ 304,767**	$ 274,037	11%
Expenses	**151,821**	141,766	7%
Net rental income	**152,946**	132,271	16%
Loans and investment income	**41,856**	31,646	32%
	$ 194,802	$ 163,917	19%

Revenue from commercial properties includes rental revenues earned from tenant leases, percentage rent and additional rent from the recovery of operating costs and property taxes. Revenue from commercial properties totalled $304.8 million in 2001, an increase of $30.7 million or 11% over 2000. The increase in revenue over 2000 was generated through leasing in the portfolio, increased rental rates on lease rollovers and additional revenues related to acquisitions.

Commercial property operating expenses are comprised of the costs of direct property operations including property taxes, employees' salaries, utilities, insurance, and other costs of ownership such as professional fees and capital taxes. Property expenses increased by $10 million to $151.8 million, the result of additional expenses associated with property acquisitions during the year. Net rental income increased by $20.7 million to $152.9 million in 2001, an increase of 16%. Higher occupancies and net rental rates have resulted in strong revenue growth and operating cost recoveries.

The company continued to reduce its real estate loan portfolio with the intention of reinvesting the capital into commercial real estate properties as appropriate opportunities arose. In 2001, loans and investment income increased by $10.2 million due to further realizations on its loan portfolio and other assets above their carried value, as well as earnings on surplus cash generated from property dispositions.

Expenses

(thousands)	**2001**	2000
Interest expense	**$ 63,987**	$ 57,217
Administrative	**4,930**	9,416
Large corporation tax	**2,959**	3,714
	$ 71,876	$ 70,347

Interest expense increased to $64 million in 2001 from $57.2 million in 2000 due to an increase in mortgages and other borrowings prior to property sales. During 2001, interest capitalized on redevelopment projects totalled $4.2 million (2000 – $4 million). Administrative expenses consist primarily of fees paid to a related company for operating the company, professional fees and costs related to its public company status. As a result of the combination of management resources with Brookfield Properties Corporation ("Brookfield"), the company's largest shareholder, administrative expenses were reduced by 48% from $9.4 million in 2000 to $4.9 million in 2001. This included an asset management fee of $4.6 million (2000 – nil) paid to Brookfield in relation to a cost recovery of salaries and other items incurred by Brookfield. In the prior year, salaries and related costs comprised 44% of total administrative expenses in 2000 with premises costs, professional fees and other corporate expenses accounting for the remainder. Large corporation tax paid totalled $3 million during 2001, a decrease of $0.7 million over 2000, the result of the disposition of assets.

Liquidity and Capital Resources

The company's capital structure is summarized as follows:

Capital structure

(thousands)	**2001**	**%**	2000	%
Mortgages and other borrowings	**$ 864,959**	**46%**	$ 977,701	51%
Shareholders' equity				
Preferred shares	**381,743**	**20%**	381,743	20%
Common shares	**644,233**	**34%**	555,203	29%
	1,025,976	**54%**	936,946	49%
	$ 1,890,935	**100%**	$ 1,914,647	100%

MORTGAGES AND OTHER BORROWINGS

Mortgages payable and other borrowings generally represent property specific debt where recourse is limited to the underlying asset. At December 31, 2001, the company's debt profile includes a weighted average interest rate of 7.1%, an interest coverage ratio of 2.9 times and an average maturity of 11 years.

CREDIT FACILITIES

The company has over $100 million of short-term operating lines of credit available to meet short-term operating liquidity requirements. In addition, facilities are in place permitting the company to issue letters of credit.

SHAREHOLDERS' EQUITY

The company is conservatively capitalized with a debt to capitalization ratio of 49% and $1 billion of preferred and common share equity. The preferred share capital makes up 20% of the company's total capitalization and provides perpetual leverage to common shareholders.

During 2000, a total of 3,993,619 common shares were acquired through two share repurchase initiatives, and 1,140,233 common shares were acquired and cancelled in conjunction with the company's Management Share Purchase Plan being discontinued.

DIVIDENDS

In 2001, the company paid $17.9 million of preferred share dividends (2000 – $20.8 million). The company's current intention is to retain the balance of earnings for reinvestment. As a result, it is not expected that dividends will be paid on common shares at the current time.

LIQUIDITY

For the year ended December 31, 2001, funds from operations and gains totalled $172.4 million. Capital was generated from property dispositions, and utilized in enhancing existing properties and the acquisition of land leases under existing properties and development properties. Despite new financings during 2001, the company's debt-to-capital ratio remains more conservative when compared to similar companies in the real estate industry. The company has sufficient sources of liquidity in 2002 to fund planned capital expenditures, tenant improvements and potential acquisitions, as well as to service its debt.

Risk Management

The company is exposed to a number of risks in the normal course of its business operations.

INDUSTRY AND MARKET RISK

The company, as an owner of commercial properties, faces risks associated with the commercial real estate industry. Risk factors include general and local economic conditions, the financial condition of tenants, trends in the retail industry, the ability to lease space, the ability to secure economic net rents, the availability and cost of financing and environmental risks. Risk inherent in the portfolio is mitigated by focussing investment efforts in high quality properties located in major markets where management has knowledge and expertise.

LEASE RISK

The company manages the risk arising from lease maturities by managing lease terms for low exposure in any single year, as indicated in the following table:

Lease maturity profile

(thousands, sq. ft.)	Available	2002	2003	2004	2005	2006	2007 & Beyond	Total Leasable
Office	311	179	182	245	523	369	5,731	7,540
Retail	80	113	223	79	91	58	1,161	1,805
	391	292	405	324	614	427	6,892	9,345

The company also ensures that it has minimal exposure to any single tenant and thus is not dependent on the operating performance of any one tenant.

ACQUISITION AND DEVELOPMENT RISK

The company will focus on the acquisition of high quality office properties in major markets in Canada or properties that provide value enhancement opportunities. Such acquisitions will be completed only if the returns add net asset value to the company. The risk of not achieving expected returns following acquisitions is mitigated by a comprehensive due diligence program prior to commitment. The company's development projects have historically focussed on redevelopment of existing properties. Development will only be undertaken where there is pre-leasing at levels which enable construction financing to be put in place. Risks associated with these projects are managed by aggressively negotiating and monitoring construction contracts and ensuring lease credit risk is minimized.

ENVIRONMENTAL RISK

The company has policies and procedures in place to help minimize losses arising from potential environmental exposure. The company exercises high standards of due diligence when acquiring properties or when assuming control of properties through foreclosure. To the best of management's knowledge, the company's owned properties are free from material environmental risks.

LITIGATION RISK

The company manages a significant litigation portfolio related to operations as a trust company prior to September 1, 1993, in addition to litigation from the normal course of business. The company has also received a substantial number of indemnity claims resulting from the sale of its former operations. Although the company believes that adequate provisions have been made to cover the outcome of these proceedings, the ultimate outcome of litigation always bears an element of uncertainty.

INSURANCE COVERING ACTS OF TERRORISM

BPO Properties' property and casualty and business interruption insurance was renewed on October 31, 2001. At that time, the company was successful in placing new insurance to cover the replacement costs of its properties; however, BPO Properties was unable to place coverage for damage and business interruption costs related to acts of terrorism. This condition represents an industry-wide concern, and is not unique to BPO Properties. While the Canadian government is aware of the issue, government support programs to replace the lack of commercially available terrorism insurance have not been enacted. BPO Properties continues to seek coverage for acts of terrorism; however, until this type of coverage becomes commercially available or government programs assist the insurance industry to re-establish this type of coverage, any damage or business interruption costs as a result of terrorism could result in a material cost to the company. BPO Properties, after seeking legal advice from external counsel, believes it is in compliance with all of its loan covenants, despite not being able to acquire terrorism coverage for the company's properties.

Outlook

The company believes that the positive fundamentals in the Canadian commercial real estate industry, and the markets in which the company's properties are located, will continue into 2002. In the office sector, the vacancy rate is at a 10-year low in Toronto, one of the primary markets in which our assets are located. In Calgary, the robustness of the oil and natural gas industry, despite higher vacancies from new properties which were recently added to the market, provide a positive outlook for 2002. With limited future development activity, vacancy rates are expected to remain low.

During 2002, the company will continue to focus on maximizing the value of existing assets by increasing occupancy, realizing increases in rents on rollovers of leases, proactively taking back below market leases and re-leasing at higher rates, pursuing redevelopment opportunities and taking advantage of other income-generating opportunities in the existing portfolio.

The company will also continue to pursue growth through acquisitions within the office portfolio, if the opportunities meet the company's investment criteria.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The management of BPO Properties Ltd. is responsible for the preparation, content and integrity of the consolidated financial statements and all other financial information contained in this Annual Report. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles, using management's best estimates and judgements where appropriate. Financial information presented elsewhere in this Annual Report is consistent with that in the financial statements.

The management of the company has established and maintains a system of internal controls that provides reasonable assurance that assets are safeguarded, transactions are properly authorized and recorded, the company is in compliance with all applicable laws and that the financial records are reliable for preparing financial statements. The effectiveness of and compliance with this system of internal controls is monitored by management.

The Board of Directors oversees management's responsibility for financial reporting through its Audit Committee, currently comprised of three directors who are not officers or employees of the company. The Audit Committee meets regularly with management and the external auditors to review auditing and accounting matters, including the adequacy of the system of internal controls and the quality of the company's financial reporting. The auditors have full and unrestricted access to the Audit Committee.

The consolidated financial statements have been audited by Deloitte & Touche LLP, the independent auditors, in accordance with Canadian generally accepted auditing standards. The company's Annual Report is discussed and reviewed by the Audit Committee with management and the external auditors before it is presented to the Board of Directors for approval.

David D. Arthur
President and Chief Executive Officer

Steven J. Douglas
Senior Vice President and Chief Financial Officer

AUDITORS' REPORT

To the Shareholders,

We have audited the consolidated balance sheets of BPO Properties Ltd. as at December 31, 2001 and 2000 and the consolidated statements of income, retained earnings and cash flow for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2001 and 2000 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte + Touche LLP

Toronto, Canada
February 21, 2002

Chartered Accountants

CONSOLIDATED BALANCE SHEETS

December 31 (thousands)	Note	2001	2000
Assets			
Commercial properties	2	**$ 1,448,195**	$ 1,641,968
Cash and cash equivalents	10	**393,282**	87,676
Future income taxes	7	**105,508**	142,569
Loans receivable	4	**30,437**	120,779
Other assets		**23,082**	34,939
		$ 2,000,504	$ 2,027,931
Liabilities and Shareholders' Equity			
Mortgages and other borrowings	5	**$ 864,959**	$ 977,701
Accounts payable and other liabilities		**109,569**	113,284
Shareholders' equity	6	**1,025,976**	936,946
		$ 2,000,504	$ 2,027,931

Approved by the Board,

Robert J. Harding
Director

David D. Arthur
Director

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF INCOME

years ended December 31 (thousands, except per share amounts)	Note	**2001**	2000
Commercial properties			
Revenue		**$ 304,767**	$ 274,037
Expenses		**151,821**	141,766
		152,946	132,271
Loans and investment income		**41,856**	31,646
		194,802	163,917
Expenses			
Interest expense		**63,987**	57,217
Administrative expenses and large corporation tax	7	**7,889**	13,130
		71,876	70,347
Income before the following items		**122,926**	93,570
Gains on dispositions of properties		**49,500**	15,165
Funds From Operations and Gains		**172,426**	108,735
Depreciation and amortization		**30,587**	21,101
Future income taxes, provisions and other, net	8	**34,895**	31,807
Net Income		**$ 106,944**	$ 55,827
Income per common share	6		
Basic and diluted		**$ 3.12**	$ 1.17

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

years ended December 31 (thousands)	Note	**2001**	2000
Retained earnings, beginning of year		**$ 475,292**	$ 501,176
Repurchase/cancellation of common shares	6	**—**	(59,695)
Options exercised through market growth option	6	**—**	(1,198)
Net income		**106,944**	55,827
Preferred share dividends	6	**(17,914)**	(20,818)
Retained earnings, end of year		**$ 564,322**	$ 475,292

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOW

years ended December 31 (thousands)	2001	2000
Operating Activities		
Net income	$ 106,944	$ 55,827
Add (deduct):		
Depreciation and amortization	30,587	21,101
Future income taxes	37,061	29,740
Gains on dispositions of properties	(49,500)	(15,165)
Other working capital, provisions and recoveries	6,025	12,126
	131,117	103,629
Investing Activities		
Loans receivable, principal repayments and advances	103,342	38,790
Commercial properties		
Acquisitions of properties	(152,717)	(375,481)
Tenant installations	(32,770)	(26,284)
Development and redevelopment expenditures	(80,610)	(40,536)
Dispositions of properties	467,900	61,140
	305,145	(342,371)
Financing Activities		
Debt arranged	601,931	373,890
Debt amortization and repayments	(714,673)	(121,599)
Early debt extinguishment cost	—	(8,070)
Preferred share dividends paid	(17,914)	(20,818)
Repurchase of common shares	—	(59,567)
Options exercised, net	—	(1,635)
	(130,656)	162,201
Increase (decrease) in cash and cash equivalents	305,606	(76,541)
Cash and cash equivalents, beginning of year	87,676	164,217
Cash and cash equivalents, end of year	$ 393,282	$ 87,676

See accompanying notes to the consolidated financial statements

1. Accounting Policies

BPO Properties Ltd. (formerly Gentra Inc.) is incorporated under the Canada Business Corporations Act.

(a) Financial Statements – The consolidated financial statements have been prepared in accordance with generally accepted accounting principles as prescribed by The Canadian Institute of Chartered Accountants. The company's accounting policies and its financial disclosure are substantially in accordance with the recommendations of the Canadian Institute of Public and Private Real Estate Companies.

(b) Basis of Consolidation – The consolidated financial statements of the company include the accounts of all its subsidiaries and its proportionate share of the assets, liabilities, revenues and expenses of joint ventures.

(c) Commercial Properties – Real estate properties held for investment purposes are carried at the lower of depreciated cost and estimated net recoverable amount. Cost includes direct costs and interest incurred during acquisition or redevelopment of these properties. When properties are acquired in settlement of loans and retained for investment purposes, they are valued initially at the lower of the fair value of the asset and the carrying value of the loan foreclosed.

Real estate properties held for investment are depreciated using the sinking-fund method at a rate of 5% over their estimated useful lives, to a maximum of 60 years. Under this method, depreciation is charged to income in increasing annual amounts to fully amortize the properties over their estimated useful lives. Building improvements are depreciated on a straight-line basis over terms appropriate to the expenditures.

Costs are capitalized on properties under redevelopment, including all direct expenditures, interest on debt and certain administrative expenses. Revenues earned during the redevelopment period are treated as a reduction of costs. Costs to lease properties are capitalized and amortized over the terms of the related leases.

Rental revenue includes contractual and percentage rents and recoveries of operating expenses, including property, capital and large corporation tax. Revenue from properties under redevelopment is recognized at the earlier of attaining a break-even point in cash flow after debt service or at the expiration of a reasonable time following substantial completion.

(d) Loans Receivable – Loans are stated at the principal amount outstanding or at the company's acquisition cost plus accrued interest less a provision for losses.

Interest income is recorded on an accrual basis except on loans classified as impaired. Loans are classified as impaired when there is no longer reasonable assurance as to the ultimate collectibility of contractual principal or interest or when interest or principal is 90 days past due, unless the loan is both well secured and in the process of collection. Loans that are determined to be impaired are valued at the lower of estimated realizable amount based on the present value of expected future cash flows discounted at the interest rate inherent in the original loan, or at the fair value of the security underlying the loan less disposition costs.

When a loan is classified as impaired, recognition of interest in accordance with the contractual terms of the loan ceases. Income on impaired loans is reported as the change in the net present value of future cash flows. Loans are restored to an accrual basis when principal and interest payments are current and there is no longer any reasonable doubt as to ultimate collectibility.

Real estate assets acquired in settlement of loans and held for resale are carried at the lower of estimated realizable value and the carrying value of the loan. Any excess of carrying value of the loan over estimated realizable value of the asset is charged to the provision for losses. Operating results and any gains or losses on disposal of these assets are included in income from loans and investments.

A specific provision for loss is maintained in an amount currently considered appropriate to absorb all known and probable credit-related losses in the company's loan portfolio. Provisions represent amounts required to reduce the carrying value of an impaired loan to its estimated realizable amount.

(e) Income Taxes – The company accounts for income taxes under the liability method. Under this method, future income tax assets and liabilities are calculated based on: (i) the temporary differences between the carrying values and the tax bases of assets and liabilities; and (ii) unused income tax losses are measured using substantively enacted income tax rates and laws that are expected to apply in the future as the temporary differences reverse and the income tax losses are used. See Note 7 for additional information on the composition of the income tax asset and expense.

(f) **Use of Estimates** – The preparation of financial statements, in conformity with Canadian generally accepted accounting principles, requires estimates and assumptions that affect the carried amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from estimates.

2. Commercial Properties

(thousands)	2001	2000
Office properties	**$ 1,211,146**	$ 1,200,184
Retail properties	**149,403**	459,125
Development properties	**148,660**	39,543
Accumulated depreciation	**(61,014)**	(56,884)
	$ 1,448,195	$ 1,641,968

During 2001, costs capitalized on development projects were comprised of direct construction costs of $18.9 million (2000 – $21.1 million), administrative expenses of $1.3 million (2000 – $1.1 million) and interest costs of $4.2 million (2000 – $4 million), net of operational income of nil (2000 – $2.8 million). The estimated costs to complete redevelopment projects on certain properties totals $40.5 million, of which $22.6 million is committed at December 31, 2001 (2000 – $15.3 million committed).

Minimum amounts payable over the next five years, and in the aggregate thereafter in respect of ground leases related to commercial real estate properties, which have an aggregate net book value of $213.6 million, are as follows: 2002 – $6.6 million; 2003 – $6.6 million; 2004 – $6.6 million; 2005 – $6.6 million; 2006 – $6.6 million; and thereafter – $30.8 million. Amounts payable under ground leases ranging from 29 to 891 years are included in the above amounts for 10 years.

3. Interests in Joint Ventures

The following amounts included in the consolidated financial statements represent the company's proportionate interests in commercial office property-related joint ventures:

(thousands)	2001	2000
Assets	**$ 443,074**	$ 232,569
Liabilities	**219,922**	130,765
Operating revenues	**44,829**	30,172
Operating expenses	**21,663**	19,571
Net income	**13,320**	7,992
Cash provided by operating activities	**29,816**	8,320
Cash provided by (used in) financing activities	**6,507**	(1,919)
Cash used in investing activities	**(116,068)**	(44,063)

The company, through its subsidiaries, is contingently liable for the obligations of the joint ventures. In each case, the assets of the joint venture are available for the purpose of satisfying such obligations.

4. Loans Receivable

(thousands)	**2001**	2000
Loans receivable	**$ 35,857**	$ 140,053
Accrued interest	**2,210**	1,587
Provisions	**(7,630)**	(20,861)
	$ 30,437	$ 120,779

The weighted average interest rate is 10% (2000 – 9%).

5. Mortgages and Other Borrowings

(thousands)	**2001**	2000
Mortgages payable and other borrowings	**$ 864,959**	$ 977,701

Mortgages payable have a weighted average interest rate of 7.1% at December 31, 2001 (2000 – 7.5%). Contractual mortgage principal repayments are as follows: 2002 – $12.3 million; 2003 – $19.7 million; 2004 – $13.8 million; 2005 – $14.8 million; 2006 – $15.8 million; and thereafter $788.6 million. The provisions attributable to mortgages payable limit the lenders' recourse upon default to the underlying asset except for one mortgage totaling $12 million (2000 – $119 million) which has recourse to the company. During the year, no mortgages were assumed in conjunction with the acquisition of certain commercial properties (2000 – $199.8 million).

The company maintains lines of credit which include a demand operating facility of up to $30 million which was fully drawn at December 31, 2001 and undrawn at December 31, 2000. This facility bears interest at the bankers' acceptance rate plus 0.75% or at the prime rate. In addition, lines of credit include a revolving, unsecured credit facility of up to $75 million which was undrawn at December 31, 2001 and 2000. Interest on this facility is based on a bankers' acceptance rate plus 1%. Amounts drawn under the lines of credit have been netted against cash and cash equivalents.

6. Shareholders' Equity

The consolidated statement of changes in shareholders' equity is as follows:

	2001				2000			
(thousands)	**Preferred Shares**	**Common Shares**	**Retained Earnings**	**Total**	Preferred Shares	Common Shares	Retained Earnings	Total
Balance, beginning of year	**$ 381,743**	**$ 79,911**	**$ 475,292**	**$ 936,946**	$ 381,743	$ 96,072	$ 501,176	$ 978,991
Repurchase/cancellation of common shares	—	—	—	—	—	(16,633)	(59,695)	(76,328)
Options exercised	—	—	—	—	—	472	(1,198)	(726)
Net income	—	—	**106,944**	**106,944**	—	—	55,827	55,827
Preferred share dividends paid	—	—	**(17,914)**	**(17,914)**	—	—	(20,818)	(20,818)
Balance, end of year	**$ 381,743**	**$ 79,911**	**$ 564,322**	**$1,025,976**	$ 381,743	$ 79,911	$ 475,292	$ 936,946

Authorized share capital consists of 300,000 senior preferred shares, unlimited priority preferred shares, unlimited preferred shares issuable in series, unlimited common shares and unlimited non-voting equity shares. No senior preferred shares or priority preferred shares are issued and outstanding. There were 21,652,001 non-voting equity shares issued and outstanding at December 31, 2001 and 2000.

Preferred shares

		2001		2000	
		Number of Shares	**Amount (thousands)**	Number of Shares	Amount (thousands)
Cumulative redeemable preferred shares					
Series G	(a)	**1,805,489**	**$ 45,137**	1,805,489	$ 45,137
Series J	(b)	**3,816,527**	**95,413**	3,816,527	95,413
Series K	(c)	**300**	**150,000**	300	150,000
Series M	(b)	**2,847,711**	**71,193**	2,847,711	71,193
Series N	(d)	**800,000**	**20,000**	800,000	20,000
Total outstanding preferred shares			**$ 381,743**		$ 381,743

(a) Series G preferred shares are entitled to cumulative dividends at an annual rate equal to 70% of the average bank prime rate. The company may, at its option, redeem the shares at a price of $25 per share plus arrears on any accrued and unpaid dividends.

(b) Series J and M preferred shares are entitled to cumulative dividends at an annual rate equal to 70% of the average bank prime rate for the previous quarter. The company may, at its option, redeem the shares at a price of $25 per share plus arrears on any accrued and unpaid dividends.

(c) Series K preferred shares are entitled to cumulative dividends at the 30 day bankers' acceptance rate plus 0.4%. The company may, at its option, redeem the shares at a price of $500,000 per share plus an amount equal to all accrued and unpaid dividends.

(d) Series N preferred shares are entitled to cumulative dividends at the 30 day bankers' acceptance rate plus 0.4%. The company may, at its option, redeem the shares at $25 per share plus arrears on any accrued and unpaid dividends.

(e) Preferred share dividends totalling $17.9 million were paid in 2001 (2000 – $20.8 million).

Common shares

		2001		2000	
		Number of Shares	**Amount (thousands)**	Number of Shares	Amount (thousands)
Outstanding, beginning of year		**28,519,567**	**$ 79,911**	33,602,419	$ 96,072
Shares repurchased and cancelled, net	(f)	—	—	(5,133,852)	(16,633)
Options exercised	(h)	—	—	51,000	472
Outstanding, end of year		**28,519,567**	**$ 79,911**	28,519,567	$ 79,911
Average common shares outstanding	(i)	**28,519,567**		29,857,069	

(f) During 2001, no common shares were acquired or cancelled by the company (2000 – 5,133,852 common shares for $76.3 million). There have been no shares repurchased under the substantial issuer bid initiated on July 11, 2001 which expires on July 10, 2002. A substantial issuer bid initiated on December 24, 1999 and completed on February 17, 2000 resulted in 3,789,619 shares being acquired in 2000 at $15.00 per share. During 2000, 204,000 shares were acquired at an average price of $13.40 (1999 – $12.46) under a normal course issuer bid filed in November 1989. In conjunction with the cancellation of the MSPP in 2000 (see 6(i)), the company acquired and cancelled 1,140,233 common shares at an average price of $15.00 per share.

(g) Net income per common share has been calculated after the payment of preferred share dividends of $17.9 million (2000 – $20.8 million) using weighted average shares outstanding of 28,519,567 (2000 – 29,857,069). Diluted income per common share includes the effect of the exercise of all outstanding options, if any, and is calculated using weighted average shares outstanding of 28,519,567 (2000 – 29,857,069).

(h) Common Share Options – During 2000, in connection with an offer to purchase any and all of the outstanding common shares of the company by Brookfield Properties Corporation (Brookfield), the Management Share Option Plan (MSOP) was discontinued. As a result, there were no options outstanding at December 31, 2001 and 2000.

(i) Management Share Purchase Plan (MSPP) – On December 31, 2000, the company reached an agreement with the participants of the MSPP whereby all amounts receivable in connection with the MSPP were settled in exchange for the 1,140,233 common shares held by the participants. The shares were then subsequently cancelled. In connection with this agreement, the insurance policies held as security for the "amounts receivable under MSPP" were released.

7. Income Taxes

The future income tax asset as at December 31 is comprised of the following:

(thousands)	2001	2000
Future tax asset relating to operating and capital losses	**$ 65,526**	$ 92,953
Future tax asset relating to differences between tax and book basis	**39,982**	49,616
	$ 105,508	$ 142,569

At December 31, 2001, the company had non-capital income tax loss carryforwards of approximately $407 million (2000 – $461 million) which are available to reduce taxable income of future years. These loss carryforwards will expire over a seven year period up to the year 2007. The benefit of the tax losses, net of a valuation allowance, have been reflected in the future income tax asset.

The amount of non-capital losses and deductible temporary differences, for which no future income tax assets have been recognized, is $369 million. Future income tax expense consists of the following:

(thousands)	2001	2000
Future income tax expense at combined Canadian federal and provincial income tax rate of 40.6% (2000 – 42.8%)	**$ 59,667**	$ 38,290
Change in Canadian income tax rates	**22,700**	20,580
Recognition of tax assets previously not recognized	**(22,446)**	(25,410)
Non-taxable portion of capital gains and other income	**(22,860)**	(3,720)
Future income tax expense	**$ 37,061**	$ 29,740

Large corporation tax of $3 million was paid during the year (2000 – $3.7 million) and is included in administrative expenses and large corporation taxes.

8. Future Income Taxes, Provisions and Other, Net

Future income taxes, provisions and other, net consists of the following:

(thousands)	2001	2000
Future income tax expense (Note 7)	**$ 37,061**	$ 29,740
Recovery of provisions against loans receivable, and of other assets	**(13,000)**	(6,003)
Early debt extinguishment cost	**—**	8,070
Provisions, net of gains and other	**10,834**	—
	$ 34,895	$ 31,807

During the year, the company recognized a recovery of $13 million relating to its loans receivable portfolio, and provisions for diminution in value on its remaining retail real estate portfolio was taken.

9. Segmented Information

The company operated during 2001 and 2000 primarily as an investor in commercial office and retail properties in Canada.

	Office Properties		Retail & Development Properties		Loans and Other		Total	
(thousands)	**2001**	2000	**2001**	2000	**2001**	2000	**2001**	2000
Carrying value	**$ 1,160,528**	$ 1,162,085	**$ 287,667**	$ 479,883	**$ 552,309**	$ 385,963	**$ 2,000,504**	$ 2,027,931
Acquisitions	**68,038**	337,958	**84,679**	37,523	**—**	—	**152,717**	375,481
Capital investments	**55,609**	21,618	**57,771**	45,202	**—**	—	**113,380**	66,820
Property revenue	**$ 225,383**	$ 183,590	**$ 79,384**	$ 90,447	**$ —**	$ —	**$ 304,767**	$ 274,037
Property expenses	**110,920**	95,385	**40,901**	46,381	**—**	—	**151,821**	141,766
	114,463	88,205	**38,483**	44,066	**—**	—	**152,946**	132,271
Loans and other investment income	**—**	—	**—**	—	**41,856**	31,646	**41,856**	31,646
Operating income	**114,463**	88,205	**38,483**	44,066	**41,856**	31,646	**194,802**	163,917
Administrative expenses and large corporation tax	**(5,969)**	(8,093)	**(1,805)**	(3,342)	**(115)**	(1,695)	**(7,889)**	(13,130)
Interest expense	**(52,143)**	(37,754)	**(6,104)**	(13,502)	**(5,740)**	(5,961)	**(63,987)**	(57,217)
Gains on disposition of properties	**49,500**	—	**—**	15,165	**—**	—	**49,500**	15,165
Depreciation and amortization	**(21,520)**	(13,400)	**(8,791)**	(7,544)	**(276)**	(157)	**(30,587)**	(21,101)
Future income taxes and other	**—**	—	**—**	—	**—**	—	**(34,895)**	(31,807)
Net income	**$ 84,331**	$ 28,958	**$ 21,783**	$ 34,843	**$ 35,725**	$ 23,833	**$ 106,944**	$ 55,827

10. Related Party Transactions

The company has retained the services of Brookfield for the property management of some of its office and retail properties on contracts based on fair market value of services provided. The fees paid for these property management services totalled $8.3 million in 2001 (2000 – $7.3 million). During 2001, the company entered into an agreement with Brookfield to provide asset management services for the company's property portfolio. The fees paid for these services, approximately cost recovery, totalled $4.6 million (2000 – nil). During 2000, the company provided asset management services for certain Canadian properties owned by Brookfield. Fees of $1 million earned for these services were billed at contractual rates based on fair market value of services provided. The company had demand deposits of $412 million (2000 – $85 million) with Brookfield and a subsidiary of Brookfield's principal shareholder as at December 31, 2001. The deposits earn interest at market rates and are included in cash and cash equivalents. Interest earned on these deposits for the year ended December 31, 2001 amounted to $9.2 million (2000 – $5.2 million).

11. Risk Management and Financial Instruments

The company is exposed to financial risks that arise from the fluctuation in interest rates and changes in the credit quality of its borrowers and their tenants. The company manages these risks as follows:

(a) Interest Rate Risk – The assets and liabilities of the company have both fixed and floating interest rate components resulting in an exposure to interest rate movements. The company has not hedged all of its exposure to interest rates creating unmatched floating rate interest exposures which may affect the company's earnings in future periods. As at December 31, 2001, the company's floating rate liabilities, including $381.7 million of floating rate preferred shares, exceeded its floating rate assets by $30.9 million (2000 – $417.4 million).

(b) Credit Risk – The company's business includes direct investments in commercial real estate and real estate-based lending activities. Credit risk arises from the possibility that borrowers may default on their obligations to the company or, with respect to the underlying real estate properties that secure these obligations, that tenants may experience financial difficulty and be unable to fulfill their lease commitments. The

company mitigates the risk of credit loss by limiting its exposure to any one group or borrower within prescribed limits and by ensuring that adequate security has been provided in support of loans.

(c) Market Risk – Investment returns are subject to a variety of risk factors both specific to individual investments and arising from general economic conditions.

(d) Fair Values – Fair values of assets and liabilities approximate amounts at which these items could be exchanged in a transaction between knowledgeable parties. The calculation of estimated fair value is based on market conditions at a specific point in time, in the respective geographic location based on the amount and timing of future cash flows and may not be reflective of future fair values. Changes in interest rates and investment risk are the primary causes of changes in the fair value of the company's financial instruments.

Cash and cash equivalents and securities have an aggregate fair value that approximates their carrying values on December 31, 2001 and 2000 due to their short-term nature.

Fair values of loans receivable are determined by the company by discounting the expected future cash flows of these loans at market rates for loans with similar terms and investment risks. At December 31, 2001, the fair value of loans receivable approximates their carrying value. Changes in the interest rate environment and investment risk in one or more of the markets, in which the underlying loan security is located, may result in significant changes in fair values.

Fair values of mortgages and other borrowings are determined by reference to current market prices for debt with similar terms and risks. At December 31, 2001, the fair value of mortgages and other borrowings is above the carrying value of these obligations by $1.3 million (2000 – below carrying value by $1.8 million). The difference between fair value and carrying value relates to changes in the general level of interest rates that have occurred since the debt was placed or assumed.

12. Commitments and Contingencies

The company extended certain warranties in connection with the sale of former Canadian and international operating companies, including warranties against certain ordinary course legal proceedings outstanding at the dates of sale. The company is involved in various legal actions, the outcome of which is indeterminable. In management's opinion, the consolidated financial statements include adequate provisions for warranties and litigation, based on information available at this time.

The company is contingently liable for letters of credit issued in the normal course of business in the amount of $24.6 million at December 31, 2001 (2000 – $52 million).

DIRECTORS AND OFFICERS

Directors

David D. Arthur
Toronto, Ontario
President and Chief Executive Officer
BPO Properties Ltd.

The Hon. William G. Davis, P.C., C.C., Q.C.
Toronto, Ontario
Counsel
Torys

Richard B. Clark
New York, New York
President and Chief Executive Officer
Brookfield Properties Corporation

Robert J. Harding, F.C.A.
Toronto, Ontario
Chairman, BPO Properties Ltd. and
Chairman, Brascan Corporation

C. Kent Jespersen
Calgary, Alberta
Chairman
La Jolla Resources International Ltd.

Robert J. McGavin
Aurora, Ontario
Corporate Director

Michael F.B. Nesbitt
Winnipeg, Manitoba
Chairman
Montrose Mortgage Corporation Ltd.

Officers

David D. Arthur
President and Chief Executive Officer

Steven J. Douglas
Senior Vice President and
Chief Financial Officer

Michael Zessner
General Counsel and Corporate Secretary

CORPORATE INFORMATION

Toronto Stock Exchange Ticker Symbols

Common Shares – BPP
Preferred Shares:
Series G – BPP.PR.G
Series J – BPP.PR.J
Series M – BPP.PR.M

Auditors

Deloitte & Touche LLP
BCE Place, 181 Bay Street
Suite 1400
Toronto, Ontario
M5J 2V1
Tel: 416-601-6150
Fax: 416-601-6151

Shareholder Information

Transfer Agent and Registrar
The CIBC Mellon Trust Company
P.O. Box 7010
Adelaide Street Postal Station
Toronto, Ontario
M5C 2W9
Tel: 416-643-5500 or 1-800-387-0825
Fax: 416-643-5501
Web site: www.cibcmellon.com
E-mail: inquiries@cibcmellon.com

Shareholder questions relating to dividends, address changes and share certificates should be directed to The CIBC Mellon Trust Company.

Investor Relations

Investor Relations inquiries should be directed to the Investor Relations Department at 416-359-8593.

Copies of the Interim Statements and Annual Reports can be obtained from the Investor Relations Department or the company's website at www.bpoproperties.com.

Annual Meeting

The Annual Meeting of the Shareholders of the company will be held at the Bankers Hall Auditorium, Bankers Hall, 855 - 2nd Street S.W., Calgary, Alberta, on Thursday, May 2, 2002 at 1 p.m. (MT) and will be webcast through the website at www.bpoproperties.com.

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